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Message Text

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51
ACTION EA-10

INFO OCT-01 EUR-12 ISO-00 SP-02 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04

SIL-01 L-02 H-02 PA-01 PRS-01 USIA-06 /096 W
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R 270750Z MAR 75
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC 8944
INFO AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMCONSUL HONG KONG
USMISSION OECD PARIS

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PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A
TAGS: EFIN, JA
SUBJECT: CURRENT MONETARY POLICY

1. SUMMARY: CREDIT CEILINGS FOR THE SECOND QUARTER HAVE JUST BEEN ANNOUNCED BY BANK OF JAPAN (BOJ) UNDER ITS CONTINUING POLICY OF "WINDOW GUIDANCE." FINATT ESTIMATES THAT RATE OF CREDIT EXPANSION WILL ACCELERATE TO A SEASONALLY ADJKDTED COMPOUND ANNUAL RATE OF 12.4 PERCENT IN SECOND QUARTER FROM RATE OF 9.3 PERCENT IN FIRST QUARTER. MONEY SUPPLY GROWTH HAS ALREADY PICKED UP. SENIOR BOJ OFFICIAL BELIEVES CREDIT DEMAND IS ALREADY EASING AS INVENTORY LEVELS ARE BEGINNING TO DECLINE AND THAT INCREASE IN CREDIT WILL NOT BE SO LARGE AS TO SUBSTANTIALLY REDUCE INTEREST RATES OVER THE SHORT TERM. CUT IN BOJ DISCOUNT RATE OF 0.5 PERCENT NOW GENERALLY
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EXPECTED AFTER MID-APRIL. END SUMMARY.

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2. BOJ NOTIFIED BIG CITY BANKS THAT THEIR TOTAL LOAN VOLUME CAN INCREASE Y920 BIL IN SECOND QUARTER WHICH IS 12.7 PERCENT LARGER THAN INCREASE OF Y840 BIL PERMITTED SE SECOND QUARTER 1974. (FOR PREVIOUS DATA SEE TOKYO A-49, 2/4/75). IN FIRST QUARTER CEILING PERMITTED INCREASE OF Y 910 BIL BUT THIS WAS ONLY 5.3 PERCENT INCREASE YEAR-OVER-YEAR. THUS BOJ HAS BEEN OBLIGED TO FIRMLY DISCLAIM APRIL-JUNE BANK LOAN CEILINGS ARE PART OF ANY EFFORT TO STIMULATE THE ECONOMY, BUT MORE TO PROP UP AN ECONOMY THAT IS FALTER-ING.

3. FOR THREE LONG-TERM CREDIT BANKS INCREASE IN LOAN VOLUME SET AT Y245 BIL OR UP 2.1 PERCENT, AND FOR SEVEN TRUST BANKS THE INCREASE IN Y325 BIL OR UP 4.5 PERCENT. SIMILAR BOJ WINDOW GUIDANCE CONTINUES TO BE APPLIED TO

OTHER FINANCIAL INSTITUTIONS.

4. ACCORDING TO SENIOR BOJ OFFICIAL (YOSHIO SUZUKI, ADVISOR, RESEARCH DEPT) PROSPECT IS THAT TOTAL LOANS OF "ALL BANKS" WILL BE UP 10.3 PERCENT OVER THE YEAR DURING SECOND QUARTER WHICH IS IDENTICAL TO PERCENTAGE IN FIRST QUARTER. HOWEVER, AFTER SEASONALLY ADJUSTING IMPLIED INCREASES IN LOAN VOLUME FINATT ESTIMATES "ALL BANK" LOANS WILL EXPAND AT COMPOUND ANNUAL RATE OF 12.4 PERCENT IN SECOND QUARTER COMPARED WITH ESTIMATED USE OF 9.3 PERCENT IN FIRST, AND 9.1 PERCENT IN FOURTH QUARTER 1974 (SEE TABLE BELOW). THUS LOW POINT OF CREDIT EXPANSION HAS ALREADY BEENN PASSED.

5. BOJ ESTIMATES THAT GROWTH OF M2 MONEY SUPPLY HAS ALREADY ACCELERATED TO 15.0 PERCENT S.A. ANNUAL RATE IN FIRST QUARTER. THIS BIG JUMP FROM FOURTH QUARTER 1974 RATE OF 10.4 PERCENT DUE TO : (1) LARGE INFLOW OF FOREIGN EXCHANGE AND (2) LARGE GOJ EXPENDITURES FINANCED OUT OF REVENUES BUT ALSO TRUST FUND BUREAU RECEIPTS FROM POSTAL SAVINGS (WHICH NOT PART OF M2). SUZUKI NOTED THAT CREDIT DEMAND OF SMALL AND MEDIUM SIZED BUSINESS HAS SLACKENED AND CREDITS AVAILABLE AT LOWER THAN MARKET RATES FROM GOJ SMALL BUSINESS FINANCE CORP REMAIN UNUTILIZED.
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6. WHILE FOOREIGN FUNDS HAVE ACCOUNTED FOR NO MORE THAN 2 - 2.25 PERCENT OF GRAND TOTAL NET SUPPLY OF INDUSTRIAL FUNDS, SECOND QUARTER ALLOTMENT OF IMPACT LOANS WILL BE CUT 20 PERCENT BELOW FIRST QUARTER TO $120/MO. MOF INT-FIN. BUREAU EVIDENTLY SEES LESS NEED FOR FOREIGN CREDITS BECAUSE OF RECENT YEN STRENGTH AND WILL ALSO APPROVE FEWER OVERSEAS BOND ISSUES (DETAILS TO BE REPORTED SEPARATETELEGRAM.)

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7. SOME EASING IN INTEREST RATES WAS EXPECTED BY SUZUKI IN THE PERIOD AHEAD BUT HE DID NOT FORESEE ANY SHARP DROP IN RATES DESPITE INCREASED CREDIT SUPPLIES AND LESSENING OF DEMAND. BOJ CONTINUES TO BE THE MAJOR SUPPLIER OF FUNDS TO THE MONEY MARKET WHERE RATES REMAIN AROUND 13 PERCENT. WITH BORROWERS WILLINGLY AGREEING TO 30 PERCENT COMPENSATING BALANCES (WHICH ARE ILLEGAL) ON LOANS, EFFECTIVE LOAN RATES ARE ALSO AROUND 13 PERCENT. BOJ HOPES THAT EFFECTIVE RATES WILL DROP AS A RESULT OF GREATER CREDIT AVAILABILITY.

8. FOLLOWING ARE STATISTICS OF MONETARY AGGREGATES BASED ON QUARTERLY AVERAGES OF SEASONALLY ADJUSTED MONTH-END FIGURES, EXPRESSED AS COMPOUND ANNUL RATES OF INCREASE, IN PERCENT:

	M1	M2	BANK LOANS	GNP DEFLATOR
1974 I	15.0	13.7	13.3	23.4
II	17.0	11.8	12.4	28.0
III	8.3	9.1	10.4	11.9
IV	4.6	10.4	9.1	11.8
1975 I EST	15.0	9.3		
II PROJ	12.4			

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CREDIT CONTROLS, FINANCIAL MARKETS
Control Number: n/a
Copy: SINGLE
Draft Date: 27 MAR 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975TOKYO03952
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750107-0798
From: TOKYO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t1975038/aaaaagtl.tel
Line Count: 141
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 22 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <22 MAY 2003 by ifshinsr>; APPROVED <02 JUN 2003 by MorefiRH>
Review Markings:

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EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: CURRENT MONETARY POLICY
TAGS: EFIN, JA
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006